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PAGE 01 MONTEV 01726 242024Z

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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TAGS: ECON, ELAB, UY

SUBJ: WAGE AND PRICE INCREASES ARE DECREED

REF: MVD A-32, MARCH 2, 1974

1. SUMMARY: BEGIN UNCLASSIFIED ON JUNE 21 PRESIDENT BORDABERRY ANNOUNCED WAGE INCREASES FOR THE PRIVATE SECTOR RETROACTIVE TO JUNE 1, AND PRICE INCREASES EFFECTIVE IMMEDIATELY. SIMILAR WAGE INCREASES FOR THE PUBLIC SECTOR, HE SAID, WOULD BE FORTHCOMING. HE CLAIMED REAL WAGES ARE GARDUALLY RISING, AND HE STATED THAT IN THE FUTURE THE GOU WILL DECREE WAGE INCREASES MORE OFTEN AND OF SMALLER PERCENTAGES THAN HAS BEEN THE RECENT PRACTICE. END SUMMARY.

2. AT A PRESS CONFERENCE JUNE 21 THE PRESIDENT TOGETHER WITH SEVERAL SENIOR GOU OFFICIALS ANNOUNCED A SERIES OF DECREES RAISING WAGES AND PRICES. BASIC WAGES THROUGHOUT THE PRIVATE SECTOR ARE INCREASED 16 PERCENT, RETROACTIVE TO JUNE 1. THE MINIMUM MONTHLY PAY IS RAISED BY 24 PERCENT TO 100,000 PESOS (ABOUT US\$71 AT THE PRESENT FINANCIAL RATE OF EXCHANGE), AND FAMILY ALLOWANCES

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PAGE 02 MONTEV 01726 242024Z

ARE INCREASED BY 50 PERCENT. A NUMBER OF CONTROLLED PRICES (INCLUDING THOSE OF STAPLES LIKE BREAD, RICE, SUGAR, FLOUR,

CIGARETTES AND COOKING-OIL) ARE RAISED, EFFECTIVE NOW, BY VARIOUS AMOUNTS WHICH AVERAGE AROUND 10 PERCENT. BORDABERRY PROMISED THAT A COMPARABLE WAGE INCREASE FOR THE PUBLIC SECTOR, TO BE EFFECTIVE JULY 1, WILL BE INCLUDED IN THE 1973 BUDGET PRESENTATION (RENDICION DE CUENTAS) NOW UNDER PREPARATION.

3. THE PRESIDENT AND HIS ACCOMPANYING OFFICIALS CLAIMED THAT REAL WAGES IN URUGUAY HAVE RISEN TWO PERCENT SINCE A YEAR AGO. THE 34-PERCENT PRIVATE-SECTOR WAGE INCREASE THAT TOOK EFFECT LAST JANUARY, THEY EXPLAINED, WAS INTENDED TO COMPENSATE, ^{#95} FOR PRICE RISES PRIOR TO THEN, BUT FOR THE INFLATION THEN FORESEEN FOR THE FIRST HALF OF 1974 (SEE REF AIRGRAM). ADMITTING THAT THE FINAL FIGURES FOR THE COST OF LIVING DURING THIS PERIOD ARE NOT YET AVAILABLE (ONLY THE FIRST-QUARTER FIGURES SHOWING A 22-PERCENT RISE, HAVE BEEN OFFICIALLY ANNOUNCED) THEY INSISTED THAT REAL WAGES ARE GRADUALLY RISING. THE NEW WAGE INCREASE OF 16 PERCENT, THEY ARGUED, IS NOT IN COMPENSATION FOR THE INFLATION OF FIRST-HALF 1974 (ALREADY COMPENSATED FOR BY THE JANUARY WAGE INCREASE) BUT IN ANTICIPATION OF THE RISE EXPECTED IN THE COST OF LIVING DURING THE MONTHS TO COME.

4. IN THIS CONNECTION BORDABERRY ANNOUNCED TWO CHANGES IN GOU WAGE-PRICE POLICY. IN THE FIRST PLACE, SINCE GENERAL INCREASES IN WAGES INEVITABLY BRING ABOUT SOME PRICE INCREASES BECAUSE THE WAGE INCREASES RAISE COSTS, THE GOU FROM NOW ON WILL MAKE GENERAL PRIVATE-SECTOR WAGE RAISES EFFECTIVE AS OF THE FIRST OF THE MONTH IN WHICH THEY ARE ANNOUNCED, RATHER THAN THE START OF THE FOLLOWING MONTH; THUS THE WORKER IS ALREADY EARNING HIS HIGHER WAGE WHEN THE RESULTANT PRICE RISES OCCUR. IN THE SECOND PLACE, THE PRESIDENT ALLEGED, THE REGULARITY OF GENERAL WAGE AND PRICE INCREASES IN JANUARY AND JULY OF EACH YEAR HAS LED TO SEMI-ANNUAL PERIODS OF SOCIAL TENSIONS AND ECONOMIC DISTORTIONS (SUCH AS SPECULATION AND ARTIFICIAL SHORTAGES) IN ANTICIPATION OF THE RAISES; THEREFORE THE GOU FROM NOW ON WILL DECREE SMALLER WAGE AND PRICE ADJUSTMENTS AT IRREGULAR AND MORE FREQUENT INTERVALS. END UNCLASSIFIED. BEGIN LIMITED OFFICIAL USE.

5. COMMENTS: SPECULATION IN THE INFORMATION MEDIA ON THE LIMITED OFFICIAL USE
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PAGE 03 MONTEV 01726 242024Z

UPCOMING GENERAL WAGE INCREASE, WHICH HAS BEEN FAIRLY ACCURATE ON PAST SUCH OCCASIONS, CONCURRED THIS TIME THAT THERE WOULD BE A PRIVATE-SECTOR INCREASE ON JULY 1 OF APPROXIMATE 20 PERCENT. THE GOU HAS SPRUNG A SURPRISE BY DECREETING A RAISE OF ONLY 16 PERCENT MADE MORE PLATABLE TO WAGE-EARNERS BY ITS RETROACTIVITY TO JUNE 1 AND BY THE ADDITION OF LARGER INCREASES IN FRINGE BENEFITS AND IN THE MINIMUM WAGE.

6. THE QUESTION OF WHETHER REAL WAGES ARE RISING OR FALLING IS CONTROVERSIAL, RENDERED HARDER TO PIN DOWN BY THE PAUCITY

AND TARDINESS OF COST-OF-LIVING FIGURES. AS IS OFTEN THE CASE WITH STATISTICS INTERPRETATION DEPENDS SOMEWHAT ON THE BASE PERIOD SELECTED. THE GOU NOW INTRODUCES THE FURTHER COMPLICATION OF BASING GENERAL WAGE INCREASES ON FUTURE INFLATION PROSPECTS RATHER THAN ON LIVING-COST CHANGES THAT HAVE ALREADY TRANSPIRED. THE GOU'S INSISTENCE THAT REAL WAGES ARE ACTUALLY RISING IS GENERALLY GREETED WITH SKEPTICISM, BUT FOR THE ABOVE REASONS IT IS HARD TO DISPROVE.

7. THE GOU'S ARGUMENT FOR SHIFTING FROM LARGE AND REGULAR WAGE-PRICE INCREASES TWICE A YEAR TO A SYSTEM OF SMALLER, FREQUENT AND IRREGULAR ADJUSTMENTS IS SIMILAR TO ITS REASONS FOR PURSUING SINCE OVER TWO YEARS AGO A MINI-DEVALUATION SYSTEM OF ADJUSTMENT OF THE COMMERCIAL RATE OF EXCHANGE. FOR THE EMPLOYER, A NEW ELEMENT OF UNCERTAINTY IS ADDED TO HIS BUSINESS PLANNING: IT WILL BE MORE DIFFICULT FOR HIM TO PREDICT COSTS FOR LABOR AND MATERIALS NOW THAT THEY ARE SUBJECT TO FREQUENT AND DELIBERATELY IRREGULAR MINI-ADJUSTMENTS.
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